

Draft
Testimony of Deputy Secretary Paul Wolfowitz
To the House Budget Committee on the FY 2002 Defense Budget
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Mr. Chairman, members of the Committee, thank you for this opportunity to discuss the President's 2002 amended budget for the Department of Defense.

The U.S. Armed Forces are the world's best-trained, best-equipped, most powerful military force in the world. They provide the security and stability that make peace and prosperity possible across the world. Indeed, no force on earth can do what they do—from the speed with which they can mobilize, to their effectiveness once they are in theater.

The preeminence of our military forces may lead some to ask: in this moment of peace, why do we need such an increase in the U.S. defense budget? The answer is simple: how long that peace lasts will almost certainly depend on our ability to defeat any adversary and maintain the unparalleled capabilities of the U.S. Armed Forces.

However, we spent much of the 1990s living off the investments of the 1980s. We allowed our military capabilities to be slowly degraded as we overused a shrinking and under-funded force. To their enormous credit, America's dedicated servicemen and women dutifully did more with less -- putting off needed investment in training, infrastructure, maintenance, and procurement to keep up with a proliferation of missions.

Many in Congress -- and on this Committee -- worked hard to give them more resources. But notwithstanding those efforts, an imprudent policy of overworking and under-funding our troops continued -- a policy that has now, not surprisingly, begun to take its toll. It has harmed the morale of our forces. It has harmed their readiness to meet current threats. And it is undermining our ability to prepare for the threats of the future—because defense decisions and investments can sometimes take 10 to 15 years to reach fruition, especially when it comes to developing and fielding innovative new weapons systems.

With this situation in mind, when President Bush took office, he asked the Defense Department to undertake a comprehensive review of the condition of America's forces. He asked us to engage our brains before we opened our wallets, and so Secretary Rumsfeld initiated a broad strategy review soon after he took office. We have completed the first stage of the strategy review and that forms the basis for the '02 budget request. We are now starting the second stage, the Quadrennial Defense Review, which will form the basis for the '03 budget and the new FYDP. I'd like to briefly explain the process for you before I go into the specifics of the 2002 budget.

In the first months of the Administration, Secretary Rumsfeld commissioned a series of studies to look at a variety of issues, touching on subjects from space to missile defense, to morale and the quality of life of our troops. While these studies were wide-ranging, they basically covered two broad areas: first, the strategic environment and the challenges our forces will face in the future; and second, the condition of the U.S. military today.

From the completion of those initial studies, we have drawn two conclusions: The first is that the security environment America will face in the decades ahead will be much more dangerous than the one we faced in the decade just past. The other is that the condition of our force today is even worse than we had previously expected.

This exposed a dilemma: To meet emerging dangers, we know we must build a 21st Century force. But we are constrained in our ability to build the 21st Century force we need -- because the 20th Century force we have is in such a serious state of disrepair.

These preliminary conclusions have formed the basis of the 2002 budget and a starting point for the second, more formal, round in the review process, the Congressionally-mandated Quadrennial Defense Review, which I'd like to address before I get into the budget.

This is only the second time the Defense Department has conducted a QDR under the formal mandate of Congress. [However, it is not the first time the Department has taken a broad look at the size and nature of the force needed to meet national

defense requirements.] Yet the process this time is unprecedented for the amount of time the Secretary of Defense, the senior military leaders of the Department have spent in carefully establishing the parameters of such a review at the beginning.

Over the past two months the most senior officials in the Department—including Secretary Rumsfeld, the Chairman of the Joint Chiefs, the Vice Chairman, the Service Secretaries and Chiefs and myself have met for close to 35 hours, to discuss a possible new defense strategy for the 21st Century—and to give detailed guidance and parameters to the QDR. These carefully established parameters reflect conclusions drawn from the preliminary strategy reviews as well as the accumulated wisdom and years of experience in defense matters represented by those civilian and military leaders.

The first stage brought to the surface a number of formal questions that will be addressed over the next several months; broadly, they target the size and character of the defense force structure. Of these issues, the most important we've identified is the need to assess the defense force posture on the basis of multiple dimensions of risk.

In the past, we have tended to evaluate exclusively on the basis of our ability to execute existing war plans. That focus, we concluded, while important, is much too narrow. Other aspects of the force posture must be taken into account. For example, everyday we use our forces in ways that are unplanned, unbudgeted and unaccounted for—the ongoing operation in Bosnia is a prime example. It was supposed to last one year and cost \$1 billion, but is now a significant ongoing feature of the Defense budget and should not continue to be managed with year to year “emergency” supplemental appropriations.

Bosnia vividly illustrates the reality that our forces do more in peacetime than simply prepare to fight the conflict scenarios we anticipate in our war plans. At the same time, and in addition, we must also prepare for a future that is hazy and indistinct. We can be less certain of the specific scenarios we will face in the 21st Century. Nevertheless, we can discern the emergence of new and more formidable threats—threats we must begin to prepare for now. And to do that, we need new capabilities. These represent two additional dimensions of risk that must be considered along with the more commonly evaluated risks associated with current war plans: the risks imposed by the ongoing use of our forces in peacetime, and the

risks of not being prepared for emerging threats in the future.

Our intention is that by the end of the QDR, we may give more precise advice to the President and to Congress on how to balance those different needs and risks, and present a new defense posture that is better suited for ourselves and for future generations.

While the first stage of our review has focused on the nature of threats and the condition of the existing forces we have, the QDR will help us decide the kinds of forces we need to build. But it is sufficiently clear, however, we urgently must begin to repair the damage inflicted by the complacency of the '90s.

The 2002 amended budget starts us on a path toward transformation by undertaking urgently needed, immediate repairs to our existing force, and by investing now in some of the transformational technologies and R&D that we will need for the 21st Century force. That is what the President has sought to do with the 2002 defense budget.

Getting started quickly is imperative because defense planning is a long-term process. And we have lost precious time. We've been digging ourselves into a hole for a decade, and we can't get out of that hole in a single year, so we need to get started now. Allow me to describe for you some of the key aspects of President Bush's 2002 budget – what it does, and what it does not do.

The President has requested a historic increase to begin dealing with some of the immediate problems I've mentioned. The budget we have proposed is the largest peacetime increase in defense spending since the 1985 Reagan defense budget. Using the 2001 enacted budget of \$296.3 billion as a baseline, the President earlier this year issued a budget blueprint that outlined a 2002 baseline budget of \$310.5 billion. This included a \$4.4 billion real increase to cover presidential initiatives, including:

- \$1.4 billion to increase military pay,
- \$400 million to improve military housing, and,
- \$2.6 billion for research and development.

The request before you proposes to raise that investment still further to a total of \$328.9 billion -- \$18.4 billion more than the President's February budget blueprint. Taken together, these increases amount to \$22.8 billion real increase in defense expenditures for the Department in 2002.

As I explained previously, the first stage of the strategy review has defined where we are today and outlined in broad terms the direction we must go in order to build a 21st Century force. The precise specification of where we need to get to will emerge from the second stage of the QDR. The QDR will tell us which mountain we need to climb and how high it stands, whether it is 6,000 feet high, 12,000 feet high—or perhaps even higher. But, one thing is for certain: we know we're starting in a hole, and a hole that is below sea level at that. So, no matter how high the peak we must ultimately scale, we know we better start climbing now. And that is what the 2002 budget does for us—it begins our uphill journey.

Allow me to give you an example of one way the 2002 proposed budget will begin to arrest some troubling declines. Consider DoD's aging infrastructure, which the 2002 proposed budget begins to address. It increases funding to meet current needs and begins a long-range plan to streamline, restructure, and upgrade DoD facilities.

In the private sector, the standard for overall facility replacement is 57 years. DoD's target is 67 years. Under the 2001 enacted budget, DoD was replacing facilities at an average rate of 192 years. The 2002 budget proposes to increase funding for facilities from \$3.9 billion to \$5.9 billion. Even with this substantial increase, it only gets us to an average replacement rate of about 98 years—still not yet close to the 67-year target.

However, as Secretary Rumsfeld has said, with a round of base closings and adjustments that would reduce unneeded facilities by, for example, 20-25%, we could focus more funds on those facilities we actually need and get the replacement rate down to 76 years at the 2002 budget level—a substantial improvement.

Our people are the key to everything we do—they are the foundation on which today's force is built, and they will be the foundation on which we will build the force of the future. Smart weapons require smart soldiers, sailors, airmen and Marines. And unless we can attract and retain the best people, no amount of technology can assure our safety and security in the new century.

To ensure we are taking care of this most precious resource, this budget will help put us on the path to recovery in some key areas including military pay, housing allowances, readiness training, and health care—overall quality of life investments that tell our men and women in uniform we value their service and sacrifice.

The 2002 budget, for example, begins to address previous shortfalls in the Defense Health Care program. We have anticipated a 12% growth in the costs of medical care and a 15% growth in the cost of pharmacy purchases. And so, by using for the first time realistic budgeting of health care costs, the 2002 amended budget proposes \$17.9 billion for defense health – to cover these costs, a \$5.8 billion increase from \$12.1 billion in FY 2001. And it includes \$3.9 billion for prescription and medical care benefits for Medicare-eligible military retirees and their families.

The 2002 budget moves beyond simply repairing the present force and takes a major step towards transformation with significant investment in new technologies—it begins to build the military of the 21st Century and it begins to address some of the more urgent threats identified in the first stage of the strategy review.

To advance technologies with the greatest promise for transforming our forces to meet the threats of the 21st Century, the budget assigns appropriate funding for Research, Development, Test, and Evaluation (RDT&E) programs. These include, for example, technologies to protect and enhance our communications and computer capabilities. Reflecting the high priority of transformation, the FY 2002 budget boosts RDT&E by 14 percent in real terms, up to \$47.4 billion from 41.0 billion.

Today's strategic environment is far different from that of the Cold War. We have an obligation to plan for the changing circumstances we face today—to make sure that we are arranged to dissuade rash and reckless aggressors from taking or threatening action. One of the most disturbing areas of vulnerability, one frequently identified as an area where our opponents might seek to exploit so-called “asymmetric” approaches against us, is threats from ballistic missiles, armed with both conventional weapons and weapons of mass destruction.

This budget invests heavily in efforts to deter and defend against existing and projected threats and to dissuade potential adversaries from continuing to invest in these dangerous capabilities. The budget advances the President's commitment to build effective missile defenses for our territories, for our allies and deployed forces against threats of all ranges, based on the best available technologies, deployed at the earliest possible date. It includes a total of \$7.0 billion for Ballistic Missile Defense Organization (BMDO) programs and \$1.3 billion for lower tier systems. And it emphasizes an expanded and flexible RDT&E program that is designed to pursue the most promising developments.

In addition to this important initiative, the budget includes another \$13.3 billion dollars of investments in a wide range of potentially transformational capabilities. The chart attached to this testimony gives some indication of the wide-range of programs that we propose this budget to invest in.

There are also a number of initiatives in this budget proposal that are addressed at streamlining our operations and saving us money, many of which require congressional support. The Peacekeeper deactivation is one such example. As in so many other cases where we'll be looking for savings or cutting unnecessary programs, we have to spend money up front to realize those savings in the out years. In addition, in the case of the Peacekeeper, we will need the support of Congress to remove the current restrictions to get rid of a nuclear system that we no longer need—the system many intelligent observers have been recommending we get rid of for years.

We can and must continue to take other such innovative measures. But, doing so will require congressional support. For many important reforms—reducing our excess infrastructure, in reallocating functions, and giving the department the ability to manage efficiently—we will need your help.

One of Secretary Rumsfeld's top priorities is to transform the Department's system of financial management. We recognize that we need to make fundamental changes that will save money and assure you, the members of Congress, as well as the American people, that we are allocating and using defense funds properly and wisely. One key improvement we anticipate is the connection of major areas of financial management, such as personnel, acquisition, logistics and financial systems. Through this end-to-end system, we hope to be able to access

information ranging from readiness indicators and end strength numbers to personnel records and tracking acquisition programs, more accurately, sooner, and cheaper. And this system will allow the Department to meet prevailing financial management requirements.

So this budget does a great deal. However, if we are to revitalize America's Armed Forces and transform for the 21st Century, it is clear that budget increases alone won't get us to where we need to be. We need to find ways to use the American people's tax dollars more efficiently. We can find savings with the management overhaul that Secretary Rumsfeld has already begun. And, we are committed to operating more efficiently, and thereby saving money, in our daily operations.

Finally and very importantly, this 2002 budget seeks to apply the principle of honest assessments of what it will take to do the job, or what we call realistic costing, to other key areas such as flying hours, transformation and management issues, procurement and base operations. Realistic costing is designed to get us away from the dysfunctional process of deliberately under-budgeting in anticipation of "emergency" supplementals. It is our firm intent that with the '01 supplemental, we will put behind us supplemental budgeting—a process that is, at times, wholly unconnected with true unanticipated needs.

The increase in the 2002 budget is thus a significant, historic increase. It is devoted to beginning urgent rehabilitation of the 20th Century force that we have and begins building the force of the 21st Century. This 2002 budget gets us started on the road to rehabilitation. The 2002 budget proposal before you is a bridge budget to what we hope will be the transformation budget of 2003.

I'm reminded of another point in our history when it was a challenge to make a case for increased defense spending. In 1950, General Omar Bradley urged President Truman to spend at least \$18 billion on defense. The Joint Chiefs gave an even higher estimate at \$23 billion, and the services' estimate was higher still at \$30 billion. But the President said we couldn't afford that much - \$15 billion was as much as we could afford.

Six months later, we were suddenly in a war in Korea. Just as suddenly we found we had no choice other than to budget some \$48 billion—a 300 percent increase. How much better it would have been to have made the investment earlier. Then, Dean Acheson might not have been forced to define Korea as being outside the

defense perimeter of the United States—on the grounds that we did not have the forces to defend it.

We have spent an historical average of about 8% of GDP on defense, in part because we have not spent enough in peacetime to prepare for, and deter, war. We can't know who may challenge us in the future, or where, or when. Today, we are more in the range of 3% of GDP. But it is reckless to press our luck or gamble with our children's future. To think we can't afford an insurance policy of roughly 3.5% of GDP today to deter the adversaries of tomorrow and underpin our prosperity, and by extension, peace and stability around the globe, is simply wrong. When compared with the cost in dollars and human lives if we fail to do so, it is cheap at that price.

It's interesting here to consider once again the situation in 1950. President Truman's bottom-line figure of \$15 billion represented 32 percent of the federal budget, or just 5 percent of the GDP. The jump in spending to \$48 billion the war necessitated represented more than 15 percent of the GDP. If history is our guide, it is suggesting quite strongly that we are much wiser to make smaller investments now rather than pay the premium rate later on.

Much remains to be done, and we know that fixing and transforming our force is a joint responsibility, one that requires a close partnership between Congress and the Executive Branch. It is a responsibility we have to our nation's service members; it is a responsibility we have to future generations. The force we build today will benefit our successors—and help ensure peace and prosperity for our children and grandchildren.

We look forward to working with you to rehabilitate today's force, and build the force of the future. We earnestly seek your support in this important and noble mission. Thank you.